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EQUITY CROWDFUNDING: FINDINGS FROM EUROPEAN EXPERIENCE (SUMMARY)

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≈ SUMMARY ≈

**EQUITY CROWDFUNDING: FINDINGS
FROM EUROPEAN EXPERIENCE**

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Principal Topic

Equity crowdfunding is a potentially important, but contentious, means of facilitating access to finance for young businesses. Some countries have regulated crowdfunding such that it is legal; however, regulators in North America continue to debate frameworks that balance investor protection with facilitating access to capital. Based on the JOBS Act, the Securities Exchange Commission released proposed rules on equity crowdfunding for public comment, but they have not yet been implemented. This study seeks to further inform this debate by reporting an analysis of four Europe-based, internationally-operated, equity crowdfunding portals: Companisto (Germany), Crowdcube (UK), Invesdor (Finland), and FundedbyMe (Sweden).

Method

The study first compares platforms in terms of two contentious dimensions: information disclosure requirements for listings and risk advisory-based investor protection systems, linking these dimensions to platform performance. Second, using data comprising salient aspects of all 296 companies listed on those platforms, the research estimates multivariate models of factors associated with fundraising success. This two-stage approach allows inferences as to the impact of key factors on fundraising success, including cross-platform differences.

Results and Implications

Better fundraising performance is most likely for:

1. Firms listed on platforms with more stringent disclosure requirements and that provide explicit risk warnings (Companisto and Crowdcube);
2. Young companies, especially those that have realized measurable growth;
3. Firms with environmentally friendly products or that are engaged in educational businesses.

The results suggest that credibility of the platform requires a minimum level of information disclosure although Guzik (2014) argues that overly stringent regulation may make equity crowdfunding too expensive. That 80 percent of the companies disclosed at least three-years of financial statements (one year historical and at least two years forward) might provide a guideline for a reasonable level of disclosure. Nevertheless, for investment decision-making investors appear to rely more on qualitative aspects of the business (firm characteristics and entrepreneur backgrounds) rather than on financial statement data disclosed by the company. This might imply, consistent with the widely held view, that target participants in equity crowdfunding, unaccredited investors, are inexperienced in early stage investments. Alternatively and arguably more likely, it suggests that market participants are skeptical of unaudited financial information and entrepreneurs' (typically optimistic) projections.

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